

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE SISONKE DISTRICT MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Sisonke District Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Sisonke District Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

9. As disclosed in note 42 to the annual financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a prior period errors for creditors, grants and debtors discovered during 30 June 2010 in the financial statements of the Sisonke District Municipality at, and for the year ended, 30 June 2010.

## **Unauthorised, fruitless and wasteful and irregular expenditure**

10. As disclosed in note 40.2 to the annual financial statements, unauthorised expenditure amounting to R9,172 million was incurred as the municipality had exceeded the limits of the amounts appropriated for the municipal managers office and water services votes in the approved budget of the municipality.
11. As disclosed in note 40.3 to the annual financial statements, fruitless and wasteful expenditure amounting to R1,594 million was incurred as a result of non-compliance by the appointed contractors with the terms and conditions of the contract and R1,500 million for the non establishment of the shared internal audit service.
12. As disclosed in note 40.1 to the annual financial statements, irregular expenditure amounting to R5,725 million was incurred, as proper tender processes had not been followed.

## **Material losses**

13. As disclosed in note 4 to the financial statements, water losses amounting to R2,648 million were incurred during the year.

## **Additional matters**

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited supplementary schedules**

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

16. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on

predetermined objectives, compliance with the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA), the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government Municipal Planning and Performance Management Regulations, 2001 and financial management (internal control).

#### **Predetermined objectives**

17. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

#### **Non-compliance with regulatory and reporting requirements**

##### **Lack of implementation of a performance management system**

18. The municipality did not adequately implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required by sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

##### **Internal auditing of performance measurements**

19. The internal auditors did not audit the performance measurement on a continuous basis as required by section 45 of the MSA and did not submit quarterly reports on their audits to the accounting officer and the performance audit committee.

##### **Functioning of a performance audit committee**

20. The performance audit committee did not review the municipality's performance management system and make recommendations in this regard to the council as required by section 14(4) of the Local Government Municipal Planning and Performance Management Regulations, 2001.

#### **Compliance with laws and regulations**

##### **Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

##### **Expenditure was incurred not in accordance with applicable legislation resulting in irregular expenditure**

21. Contrary to the requirements set out in section 62(1)(d) of the MFMA, expenditure incurred was not in accordance with the requirements of the supply chain management policy.

##### **Expenditure was incurred not in accordance with applicable legislation resulting in fruitless and wasteful expenditure**

22. Contrary to the requirements set out in section 62(1)(d) of the MFMA, fruitless and wasteful expenditure was incurred, as it was made in vain, and could have been avoided based on the fact that reasonable care had been exercised, as defined in section 1 of the MFMA.

### **Payments were not made within the parameters set by the applicable legislation**

23. Contrary to the requirements of section 65(2)(e) of the MFMA, payments were not made within the required 30 days from the receipt of an invoice.

### **The financial statements were not prepared in accordance with applicable legislation**

24. Contrary to the requirements of section 122(1)(a) of the MFMA, the municipality's financial statements submitted for audit were subject to material adjustments due to misstatements noted during the audit.

### **INTERNAL CONTROL**

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
26. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The accounting officer did not exercise adequate oversight responsibility over compliance with the MFMA and reporting with respect to supply chain management and predetermined objectives. In addition, senior management did not adhere to the procurement processes to ensure that all expenditure incurred was in accordance with the requirements of the MFMA and the supply chain management policy of the municipality.

- **Financial and performance management**

The systems in place were not adequate to facilitate the preparation of, and reporting on, financial statements and predetermined objectives in compliance with the MFMA and GRAP as the financial statements were subject to material changes as a result of the audit

- **Governance**

Internal audit did not fulfil its responsibilities, as set out in the MSA, by regularly auditing the performance measurements and submitting the internal audit reports to the accounting officer and the performance audit committee. In addition, the performance audit committee did not fulfil its responsibilities as set out in the Municipal Planning and Performance Management Regulations, 2001.

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

FINAL DRAFT